



State of Arizona
Department of Education

Tom Horne
Superintendent of
Public Instruction

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MEMORANDUM

TO: Sponsors of the National School Lunch Program & School Breakfast Program

FROM: Mary Szafranski, Deputy Associate Superintendent
Arizona Department of Education, Health and Nutrition Services

Lee Renda, NSLP Nutrition Director
Lynn Ladd, NSLP Health Director
National School Lunch Program

DATE: April 16, 2009

SUBJECT: Additional 2009 Equipment Assistance Grants for School Food
Authorities Questions and Answers

Original Signed

On March 20, 2009, memo number SP20-2009, "2009 Equipment Assistance Grants for School Food Authorities Questions and Answers," was issued in response to questions received from the "2009 Equipment Assistance Grants for School Food Authorities" memo, (memo number SP18-2009, issued March 9, 2009). This memo states that Public Law 111-5, the American Recovery and Reinvestment Act of 2009 (ARRA), provides a one-time appropriation of \$100,000,000 for equipment assistance to school food authorities (SFAs) participating in the National School Lunch Program (NSLP). The information below answers additional questions USDA received from Regional Offices and State agencies not addressed in SP20-2009 regarding allowable usage of the ARRA funds. These questions and answers are numbered as a continuation of SP20-2009. In addition, this memo provides clarification on how long the ARRA funds will be available to State agencies and SFAs, the difference between questions 18 and 19 of SP20-2009, and one revision to SP20-2009's question 10.

State agency

Q.26. When State agencies are creating their application solicitation, should the application advise the SFAs the origin in which the funds are made available?

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- A.26. Yes. The State agencies should identify in their application solicitation to the SFAs that the grant funds are made available under the American Recovery and Reinvestment Act of 2009 (ARRA).
- Q.27. Will the SFAs' ARRA equipment assistance grants be reimbursement based or will the funds be advanced to the SFAs with their grant awards?
- A.27. It is up the State agency to decide which method to distribute the funds to the SFAs best meets the needs of the State. However, please remember that the intent of the ARRA is to stimulate the economy and provide relief from economic distress by encouraging the prompt purchase of school food related equipment. In some cases, the reimbursement process may provide a hardship to SFAs as some SFAs may not have the funds available to purchase the needed equipment up front and wait for reimbursement from the State agency. If a State's policy is to only allow for reimbursement, perhaps a solution would be for the State agency to reimburse the SFA based on purchase orders as opposed to invoice receipts. Or, another possible solution would be for the State agency to reimburse the SFA in two phases: one partial payment based on the purchased order-and a second final payment based on the invoice receipts.
- Q.28. Can a State agency set aside a certain amount of the ARRA equipment assistance grant funding for small SFAs, another amount for medium SFAs, and another amount for large SFAs?
- A.28. Grouping of this type is only allowable if the grouping is not structured in a way that circumvents the statutory requirement that priority (or more weight) must be given to schools in which not less than 50 percent of the students are eligible for free or reduced price meals. If a State agency chooses this type of structure, the details of the grouping criteria and structure, including how the targeting of low-income schools will be accomplished, must be included in the grant application announcement. **Arizona has not used this structure in ARRA equipment assistance grant.**
- Q.29. May SFAs that contract with a Food Service Management Company (FSMC) or caterer apply for the ARRA equipment assistance grants?
- A.29. With regard to an FSMC, yes; however, when an SFA contracts with an FSMC and the FSMC acts on behalf of the SFA, the FSMC must adhere to the same Federal, State and local procurement requirements that are required of the SFA itself (7 CFR Part 210).

Any equipment assistance grant requests from SFAs that contract with a caterer must use the requested equipment to benefit the school and not the caterer, and the equipment must remain on the property of the school/SFA. For example, a refrigerator that is installed at the school is allowable, as opposed to a refrigerator that is installed at the caterer where the company could use the refrigerator for commercial purposes, or Federal programs other than the National School Lunch Program (this is prohibited).

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- Q.30. May the ARRA equipment assistance grant funds be used to purchase equipment that will be used in the serving lines, including lines that serve a-la-carte items?
- A.30. Equipment may be purchased with ARRA equipment assistance grant funds only if the serving lines are used to serve reimbursable meals. Equipment may *not* be purchased with the ARRA equipment assistance grant funds for use in serving lines that primarily serve/offer competitive foods (see 7 CFR Section 210.11) or foods of minimal nutritional value (see Appendix B of 7 CFR Part 210). A-la-carte items are competitive foods, so any equipment purchased for a serving line that primarily serves/offers a-la-carte items is unallowable. The grant request to purchase equipment must fit into the focus area(s) the State agency has determined best represents the equipment needs in the State. See memo SP18-2009, “2009 Equipment Assistance Grants for School Food Authorities”, for more information on focus areas.
- Q.31. Must the SFA use the entire school’s free and reduced-priced eligibility data, or may the SFA use the free and reduced-priced eligibility data that applies to the grade groups who will benefit from the school’s use of equipment purchased with ARRA equipment assistance grant funds?
- A.31. Consistent with the ARRA’s language on targeting schools, the entire school’s free and reduced-priced eligibility data must be used.

Reporting

- Q.32. What CFDA number will be used for the ARRA equipment assistance grant funds?
- A.32. The existing CFDA number 10.579, Child Nutrition Discretionary Grants Limited Availability, will be used for the ARRA equipment assistance grant.
- Q.33. The original memo (SP18-2009) mentions that the ARRA equipment assistance grant funds cannot be commingled with other program funds. Does this mean they cannot be included in the SFAs nonprofit school food service account? Do SFAs need to set up a separate fund?
- A.33. Yes, as stated in the original memo (SP18-2009), the ARRA equipment assistance grant funds must be tracked and reported separately and must not be commingled with other program funds.
- Q.34. What Federal reporting will be required for the ARRA equipment assistance grant funds?
- A.34. State agencies will be expected to report the use of ARRA funds to FNS, via the Food Program Reporting System (FPRS), by completing the SF-425, Federal Financial Report. Please note that State agencies will continue to use the SF-269 to report on regular Child Nutrition Program funds; only the ARRA funds will be reported on the SF-425. FNS will notify Regional Offices and State agencies regarding any other reporting elements that will be required (e.g., number of jobs created or retained by the ARRA grant funds) as soon as the information is made available.

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The Office of Management and Budget (OMB) will be issuing additional information on reporting requirements. The OMB has issued a Notice (<http://edocket.access.gpo.gov/2009/pdf/E9-7317.pdf>) that describes the proposed required standard data elements and reporting process for recipients of the ARRA grants, cooperative agreements, and loans made under the ARRA. State agencies are encouraged to provide comments on this Notice directly to OMB by the Friday, May 1, 2009, deadline.

Q.35. In reporting the ARRA equipment assistance grant funds, will State agencies be required to break down expenditures by category or will total expenditures be accepted?

A.35. As mentioned in the answer to Q.34, final reporting elements are under development by OMB; however, the State agencies will be expected to complete FNS' SF-425 (in place of SF-269) via FPRS. The SF-425 report captures total expenditures.

Q.36. When will State agencies begin reporting to FNS on the ARRA equipment grant funds and when is the report due?

A.36. Beginning in the third quarter of the current fiscal year (i.e., 2009), State agencies will be expected to complete the SF-425 (in place of SF-269). The SF-425 report is due to FNS *10 days* after each quarter begins (e.g., July 10th for the third quarter report). As noted in the answer to Q.34, State agencies will continue to report on regular Child Nutrition Program funds using the SF-269.

Equipment

Q.37. Does the equipment purchased with the ARRA equipment assistance grant funds need to follow the Buy American Act?

A.37. No. For the purpose of these grants, neither the Buy American Act nor the Buy American provision of the ARRA (Section 1605) applies to the purchase of NSLP equipment with ARRA funds.

Q.38. Does the equipment cost alone have to meet the Federal or State or local equipment definition threshold (e.g. the Federal \$5,000 equipment threshold) for the SFA to be awarded ARRA equipment assistance grant funds, or may the delivery and/or installation costs be included with the equipment cost to meet the threshold?

A.38. OMB Circular A-87, Attachment B, section 15.a.(1) defines "capital expenditure" as the acquisition cost of a piece of equipment, then proceeds to define "acquisition cost" as "the net invoice price of the equipment, including the cost of any modifications, attachments, accessories, or auxiliary apparatus necessary to make it usable for the purpose for which it is acquired. Ancillary charges, such as taxes, duty, protective in transit insurance, freight, and installation may be included in, or excluded from the acquisition cost in accordance with the governmental unit's regular accounting practices." In short, the acquisition cost of a piece of equipment includes all costs

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necessary to place the equipment in service. The per-unit capitalization threshold (whether the \$5,000 Federal one or a lower State/local one) is applied to the acquisition cost to determine whether the acquired item is “equipment.”

The SFA incurs the equipment’s acquisition cost when it acquires the equipment, and disposition costs at the conclusion of the equipment’s service life. Since disposition costs are incurred years after the equipment is acquired, they cannot be part of the acquisition cost. However, the cost of disposing of old equipment that will be replaced with ARRA-funded equipment is an allowable ARRA cost.

Q.39. May an additional piece of equipment that is required to operate the equipment be combined with the equipment cost to meet the Federal or State or local equipment threshold (i.e. the Federal \$5,000 equipment threshold)? For example: a walk-in freezer costs \$2,500, but requires a \$2,500 compressor.

A.39. Yes. The A-87 definition of “acquisition cost” quoted in Q.37. clarified that the equipment’s acquisition cost includes “the cost of any modifications, attachments, accessories, or auxiliary apparatus necessary to make it usable for the purpose for which it is acquired. Ancillary charges, such as taxes, duty, protective in transit insurance, freight, and installation may be included in, or excluded from the acquisition cost in accordance with the governmental unit’s regular accounting practices.” In the example, the cost of the compressor is part of the freezer’s acquisition cost because the freezer cannot be operated without the compressor.

Q.40. May smaller items be grouped together to meet the Federal or State or local equipment definition threshold (i.e. the Federal \$5,000 equipment threshold)?

A.40. No. Unless an item is required to put the equipment in operation, as described in Q.38. and Q.39., above, an SFA/school cannot combine smaller items to meet the Federal, State or local equipment threshold, whichever is more limiting (i.e. a State’s \$2,000 capitalization threshold instead of the Federal \$5,000 one).

Q.41. Are transportation vehicles considered equipment and; therefore, an allowable purchase with the ARRA equipment assistance grant funds?

A.41. Yes. Transportation vehicles that fit into the focus area(s) the State agency has determined best represents the equipment needs in the State are allowable equipment costs. See memo SP18-2009, “2009 Equipment Assistance Grants for School Food Authorities”, for more information on focus areas.

Q.42. May the ARRA equipment assistance grant funds be used to pay for indirect costs or audit set-asides?

A.42. No, the ARRA equipment assistance grant funds are to be used solely to purchase needed school food service equipment.

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Clarification on length of ARRA funding

The ARRA equipment assistance grant funds are two-year funds and available to FNS for obligation to State agencies through Federal fiscal year 2010. In order to ensure funds are expended by the end of Federal fiscal year 2010, any ARRA grant funds not obligated by a State agency to their subgrantees (i.e. their SFAs) at the end of Federal fiscal year 2009, will be recovered and reallocated. FNS may choose to recover the unobligated funds and reallocate them to other States. State agencies do not have the authority to retain or obligate ARRA funds that are unobligated as of September 30, 2010. FNS must monitor the obligations and ensure funds are fully obligated by the end of fiscal year 2010.

Clarification on Q.18. and Q.19. of SP20-2009

There was some expressed confusion between questions 18 and 19 of the SP20-2009 memo. The following information is clarification on the two questions:

Question 18 (or Q.18.) was asking if the ARRA equipment assistance grant funds could be used for renovation costs. The question was not asking about using the ARRA funds for purchasing *equipment* in a newly renovated kitchen, but for the renovation costs itself. So to reiterate, as stated in the memo issued on March 9, 2009, *2009 Equipment Assistance Grants for School Food Authorities* (memo code SP18-2009), kitchen renovations are considered building construction costs, which cannot be paid from the nonprofit school food service account. Such costs must be paid from the school district's General Fund, a capital projects fund, etc.

Question 19 (or Q.19.) refers to the purchase of equipment, and not construction, in a new school or food service building. As with renovations costs, actual construction costs of a new school or food service building must not be paid for with the ARRA equipment assistance grant funds. The alteration, rearrangement, modification, etc. of a site within the cafeteria or kitchen in order to prepare it for the installation of new equipment purchased with the ARRA grant funds is an integral part of the equipment's acquisition cost. For example, the installation of a new refrigerator purchased with ARRA equipment assistance grant funds may require cutting away a portion of the wall against which the new refrigerator will be placed in order to connect the necessary plumbing and would be considered part of the acquisition cost. On the other hand, "renovation" and "construction," refer to fundamentally changing the physical plant, as in constructing a new wall or demolishing an existing one. Such permanent changes to the structure go beyond the acquisition of equipment, and their cost must be paid from the SFA's General Fund, from a capital projects fund, or another resource other than the nonprofit school food service account.

Revision to SP20-2009, Question 10

Question 10 (or Q.10.) in memo SP20-2009, "2009 Equipment Assistance Grants for School Food Authorities Questions and Answers," asks if there is a certain month that an SFA needs to use to determine a school's free and reduced-priced eligibility. The answer (or A.10.) states that "the SFA must use the month of October to determine their school's percentage of free and reduced-priced eligibility." However, after further consideration FNS is slightly revising this answer. The revised question and answer is as follows with the revised portion of the answer italicized:

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Q.10. Is there a certain month that an SFA needs to use to determine a school's free and reduced-priced eligibility?

A.10. *Absent any guidance by State agencies, the SFA must use the month of October to determine their school's percentage of free and reduced-priced eligibility; however, State agencies may allow an SFA to use a month other than October to determine a school's percentage of free and reduced-priced eligibility as long as all SFAs within a State use the same month. Arizona has chosen to use the month of October to determine the school's percentage of free and reduced-priced eligibility.*

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